

Message Text

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12/21

ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 EB-07 NEA-06 IO-10 H-01 L-02

PA-01 PRS-01 USIA-06 SP-02 AID-05 NSC-05 RSC-01

CIEP-01 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

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USADB

C O R R E C T E D C O P Y (MRN CORRECTION 14898 VICE 9254)

FOR NAC AGENCIES

E.O. 11652: ADS, DECLASS 12-19-74

TAGS: EAID, EFIN

SUBJECT: PROJECTS WITH COST OVERRUNS

1. ADB DOC SECM100-74 ENTITLED "QUARTERLY REPORT ON
LOAN ADMINISTRATION AND TECHNICAL ASSISTANCE IMPLEMENTATION"
POUCHED NAC AGENCIES DEC 10. REPORT COVERS DATA AS OF
SEPT 30, 1974 AND INCLUDES LIST OF PROJECTS WITH COST
OVERRUNS IDENTIFIED AS OF THAT DATE (INCLUDING THOSE FOR
WHICH BANK SUPPLEMENTARY FINANCING ALREADY APPROVED).

2. IN ALL THIRTY-TWO LISTED PROJECTS, PRICE INCREASES
IDENTIFIED AS A MAJOR CAUSE OF OVERRUNS. OTHER REASONS
GIVEN WERE DELAY IN PROJECT IMPLEMENTATION, CURRENCY RE-
ALIGNMENT, CHANGES IN DESIGN, WORLDWIDE CAPACITY RESTRAINT,
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ADDITIONAL CIVIL WORKS AND LOW COST ESTIMATES.

3. THERE IS ONLY ONE INSTANCE (\$80,000 COST OVERRUN FOR BEEF CATTLE PROJECT - SAMOA) WHERE ALTERNATIVE SOURCE OF FINANCING (OTHER THAN BORROWER ITSELF) HAS BEEN ASSURED. IN ONE CASE (SEND MINDANAO POWER PROJECT -- PHILIPPINES), BANK HAS SUGGESTED THAT NATIONAL POWER CORPORATION SEEK JAPAN EXIM BANK FINANCING FOR ENTIRE TURBINES/GENERATORS CONTRACT AWARDED TO JAPANESE FIRM. (RE FIRST MINDANAO POWER PROJECT, USADB UNDERSTANDS PHILIPPINE GOVT WILL ASK BANK TO FINANCE ESTIMATED \$18.4 MILLION COST OVERRUN.)

4. RE INDONESIA PROJECTS, BANK IN EACH CASE HAS REQUESTED GOVT TO FINANCE COST OVERRUNS. IN ONE INSTANCE (TANDJUNG PRIOK PORT PROJECT, GOVT HAS AGREED TO FINANCE \$1.8 MILLION COST OVERRUN.

5. GOVT OF SINGAPORE HAS AGREED TO FINANCE COST OVERRUNS ON FOUR PROJECTS (\$1.5 MILLION FOR SIGNAPORE WATER SUPPLY, \$3.55 MILLION FOR POWER TRANSMISSION AND DISTRIBUTION, \$1.1 MILLION FOR SECOND POWER TRANSMISSION AND DEVELOPMENT, AND \$19.06 MILLION FOR SINGAPORE INTERNATIONAL AIRPORT). IN TWO INSTANCES (\$8.15 MILLION FOR JURONG WHARVES AND \$5.5 MILLION FOR SINGAPORE PORT DEVELOPMENT), GOVT HAS ASKED, OR IS EXPECTED TO ASK FOR SUPPLEMENTARY LOAN, BUT WE UNDERSTAND BANK NOT PREPARED TO FINANCE.

6. BANK HAS REQUESTED MALAYSIAN GOVT TO FINANCE COST OVERRUNS ON TWO PROJECTS (\$6.1 MILLION FOR GREATER IPOH WATER SUPPLY AND \$5.0 MILLION FOR SIBU PORT).

7. NO COST OVERRUN PROJECTS HAVE BEEN LISTED FOR KOREA, BANK'S LARGEST BORROWER. THIS PROBABLY DUE TO FACT THAT SEVERAL PROJECTS ARE ALREADY COMPLETED AND DEVELOPMENT BANKS HAVE BEEN MAJOR RECIPIENTS OF KOREA'S BORROWINGS FROM BANK. IT IS EXPECTED, HOWEVER, THAT COST OVERRUNS MAY POSSIBLY BE INCURRED FOR SOME PROJECTS, E.G., METROPOLITAN WATER INTAKE PROJECT. NO DETAILS AVAILABLE AT THIS TIME BUT WILL BE LATER.

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8. REPORT NOTES THAT TWO MAJOR FACTORS FOR DELAYS IN PROJECT IMPLEMENTATION HAVE BEEN (A) DELAY IN RECRUITMENT OF CONSULTANTS AND (B) DELAY IN PROCUREMENT ACTION. IN THIS REGARD, BANK STAFF HAVE BEEN ASKED TO DISCUSS WITH BORROWERS/EXECUTING AGENCIES DURING LOAN NEGOTIATIONS NEED FOR EARLY RECRUITMENT OF CONSULTANTS, INCLUDING POSSIBILITY OF HAVING RECRUITMENT PROCESS STARTED BEFORE LOAN APPROVAL BY BOARD OF DIRECTORS. (EARLY RECRUITMENT

REQUIRES PRIOR BOARD CONCURRENCE.)

9. QUARTERLY REPORT SCHEDULED FOR BOARD CONSIDERATION
DEC 23. U.S. DIRECTOR PLANS TO (A) SUPPORT BANK'S EFFORTS
TO EXPEDITE RECRUITMENT OF CONSULTANTS; (B) REAFFIRM NEED
FOR TWO-STEP PROCEDURE WITH POSSIBLE RETROACTIVE FINANCING
OF ENGINEERING SERVICES IN ORDER PROVIDE MORE REALISTIC
COST ESTIMATES; AND (C) URGE BANK TO EXPLORE OTHER MEANS
TO AVOID DELAYS IN PROJECT IMPLEMENTATION.
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